

Hendershot

PAPER PRODUCTS LIMITED

APR 1 1959

Annual Report

FOR THE YEAR ENDING DECEMBER 31, 1958

HENDERSHOT PAPER PRODUCTS LIMITED

Head Office: Burlington, Ontario

Board of Directors

W. H. Butler
J. C. Colclough
Argue Martin, Q.C.
Daniel Robertson
W. P. Walker, O.B.E.

Officers

CHAIRMAN OF THE BOARD
Argue Martin, Q.C.

PRESIDENT AND GENERAL MANAGER
J. C. Colclough

VICE-PRESIDENTS
W. P. Walker, O.B.E.
Daniel Robertson

ASSISTANT GENERAL MANAGER
A. A. Macdonald

SECRETARY-TREASURER
D. H. McKeown

Stock Transfer Agent and Registrar

Guaranty Trust Company of Canada, Toronto

Solicitors

Martin & Martin, Hamilton

Auditors

Clarkson, Gordon & Co., Toronto

HENDERSHOT PAPER PRODUCTS LIMITED

Directors' Report to the Shareholders

Your Directors submit for your approval the Annual Report of your company with related statements for the year ending December 31, 1958.

Earnings

Earnings before depreciation and bond interest were at the unusually low figure of \$29,000 in 1958. This compares with \$208,000 in the prior year. After depreciation of \$117,000 and bond interest and amortization expense of \$83,000, there was a loss from operations of \$171,000, which was reduced to \$104,000 by application of profit realized on disposal of fixed assets. No income tax has been provided.

The chief reasons for the considerably lower net operating results are:

The highly competitive conditions prevailing in the industry which not only retarded expansion of sales but also saw a further narrowing of profit margins as increased costs were not offset by price adjustments.

The increased financial and operating costs of our new and enlarged facilities at Burlington.

The interruption to services caused by the move and the initial start-up expenses at the new plant.

The non-recurring expense of moving into the new premises.

The continuing cost of maintaining unsold property then vacated.

Moving from the Hamilton premises commenced at the turn of the year and by early spring this was essentially completed. During this period partial operations were carried out in each set of premises with consequent excess labour and material usage, including some due to processing raw materials purchased prior to the start-up of the new large-capacity corrugator. As the year progressed, efficiency improved and, coupled with a strengthening economy, sales showed modest growth. The fourth quarter billings exceeded by 13% those of the comparable quarter in 1957.

Fixed Assets and Working Capital

During the year virtually all planned capital expenditures for buildings, plant and equipment were completed. Hendershot facilities, which are of the finest, are now housed in excellent premises, centrally located in the heart of industrial Canada. There is no other plant in the country better equipped or located to supply the market.

One of the Hamilton properties was disposed of during 1958 and it is anticipated that the remaining plant will be sold in the near future. All securities of the company which were created to finance the expense of the new plant have been sold in accordance with the terms contemplated.

After providing for capital outlays made during the period, less the amount realized by fixed asset disposals, loss on opera-

tions, and disbursements for Sinking Funds and dividends, working capital declined from \$386,000 to \$134,000.

Dividends

While the usual preference dividends were paid in 1958, no payment of common dividends was made after July 2, 1958 in view of the decreased earnings experienced last year.

Industrial Relations

During the year the non-supervisory workers of the company were organized as a local of the International Brotherhood of Pulp, Sulphite and Paper Mill Workers and this union was certified as their bargaining agent.

Outlook

The outlook for the company in both the short and particularly the long term is considered highly favourable. Our productive capacity has been greatly increased and the efficiency of the plant is good. A development during the year of highly favourable significance was the acquisition of an exclusive Canadian license to use the patents and know-how of the "Control-Pak" system. By this system the company is able to produce a type of container which is essentially water-impervious and of substantially increased strength. Many uses for this container are apparent and interest has been widespread in the produce, dairy, fish and meat-packing industries. Although commercial production has only recently commenced your directors are already most enthusiastic as to the variety of applications and volume of business which await Control-Pak products.

Your company's operations are now based in completely modern facilities which are strategically located and are capable of a large expansion of output. Hendershot is proud of its reputation for service and for the quality of its products. These factors together with the opportunities open to us for the manufacture of Control-Pak containers, indicate that we should all view the future with considerable optimism.

Directors and Officers

At the Annual Meeting a year ago Mr. W. H. Butler and Mr. W. P. Walker, O.B.E., both businessmen of considerable experience, were elected to the Board of Directors. Early this year, Mr. A. A. Macdonald, who has had wide business experience throughout Canada, particularly in the marketing field, joined the company as Assistant General Manager. These additions, we feel, increase materially the management strength of your company.

Appreciation is expressed to all our employees who have again performed their duties with outstanding enthusiasm and competency.

- On behalf of the Board of Directors:

J. C. COLCLOUGH
President

Burlington, Ontario
March 20th, 1959

HENDERSHOT PAPER

(Incorporated in

Balan

as at DEC

ASSETS

Current:

Cash on hand	\$	500.00	
Accounts receivable less allowance for doubtful accounts		248,266.39	
Inventories valued at the lower of cost or market		362,847.62	
Prepaid expenses		38,386.75	
Total current assets	\$	650,000.76	

Fixed:

Land, buildings and equipment—at cost	\$2,769,004.01		
Less accumulated depreciation	436,065.15	2,332,938.86	

Other:

Discount on funded debt, less amount written off	\$ 143,000.00		
Patents, trade names and contracts	45,000.00	188,000.00	

Approved on behalf of the Board:

ARGUE MARTIN, Director

J. C. COLCLOUGH, Director

\$3,170,939.62

PRODUCTS LIMITED

(In accordance with the laws of Ontario)

Balance Sheet

As at December 31, 1958

LIABILITIES

Current:

Due to bankers (secured)	\$ 238,070.84
Accounts payable and accrued charges	241,588.78
Taxes payable	9,455.10
Dividend payable on preference shares	10,500.00
Sinking fund instalments due within one year	16,000.00
Total current liabilities	<u>\$ 515,614.72</u>

Funded Debt:

6½% First (closed) mortgage sinking fund bonds maturing September 1, 1977—	
Authorized and originally issued \$1,000,000	
Outstanding	\$ 990,000.00
6¾% General mortgage sinking fund bonds, Series A, maturing September 1, 1982—	
Authorized \$600,000, of which originally issued \$500,000	
Outstanding	495,000.00
	<u>\$1,485,000.00</u>
Less sinking fund instalments due within one year included under current liabilities	<u>16,000.00</u>
	1,469,000.00

Shareholders' Equity:

Capital (Note 2)—	
6% Cumulative redeemable preference shares of \$100 par value each—	
Authorized—10,000 shares	
Issued and outstanding—7,000 shares	\$ 700,000.00
Common shares without any nominal or par value—	
Authorized—240,000 shares	
Issued—155,705 shares (including 310 shares issued during year for cash of \$1,550)	244,065.00
	<u>\$ 944,065.00</u>
Earned surplus	242,259.90
	<u>1,186,324.90</u>
	<u><u>\$3,170,939.62</u></u>

HENDERSHOT PAPER PRODUCTS LIMITED

Statement of Profit and Loss

FOR YEAR ENDED DECEMBER 31, 1958

Profit from operations before deducting the following charges		\$ 29,620.89
Depreciation (Note 1)	\$116,936.78	
Interest on funded debt, including amortization of discount	83,495.02	
Directors' fees	400.00	200,831.80
Loss from operations		\$171,210.91
Deduct profit on disposal of fixed assets		66,940.71
Loss for year		<u>\$104,270.20</u>

Statement of Earned Surplus

FOR YEAR ENDED DECEMBER 31, 1958

Balance January 1, 1958.		\$333,627.10
Add discount on funded debt charged to earned surplus in 1957 now restored— to be amortized to maturity		86,000.00
		<u>\$419,627.10</u>
Deduct:		
Loss for year	\$104,270.20	
Dividends declared—		
6% preference shares	\$42,000.00	
Common shares	31,097.00	73,097.00
		<u>177,367.20</u>
Balance December 31, 1958		<u>\$242,259.90</u>

HENDERSHOT PAPER PRODUCTS LIMITED

Notes to Financial Statements

DECEMBER 31, 1958

1. Prior to 1958 depreciation was provided in the accounts on the reducing balance basis at the maximum rates claimable for tax purposes except that in 1957 no depreciation was provided on the new building and equipment located in Burlington (not then in use) but maximum depreciation was claimed thereon for tax purposes. As a result of claiming such additional depreciation in 1957 income taxes otherwise payable for that year were eliminated and part of the income taxes paid in 1956 were recovered resulting in aggregate reductions in income taxes (and corresponding increase in 1957 profits) of approximately \$77,000.

In 1958 the method of providing depreciation in the accounts was changed to a straight line basis on the new building and equipment located in Burlington and on all new additions (designed to amortize such assets over their useful life) but the reducing balance basis is being continued on assets previously acquired. However, the company intends to continue claiming maximum depreciation for tax purposes and in 1958 this will have the effect of increasing by approximately \$131,000 the loss available for application against taxable income of subsequent years.

2. At December 31, 1958 share warrants were outstanding carrying the right to purchase 64,505 common shares—

At \$ 5 per share to August 31, 1959

At \$ 7 per share to August 31, 1961

At \$10 per share to August 31, 1962

Auditors' Report

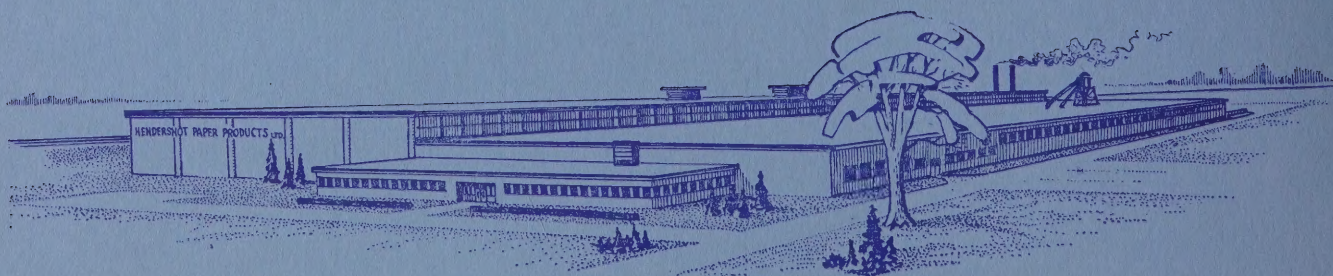
To the Shareholders of
HENDERSHOT PAPER PRODUCTS LIMITED:

We have examined the balance sheet of Hendershot Paper Products Limited as at December 31, 1958 and the statements of profit and loss and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statements of profit and loss and earned surplus present fairly the financial position of the company as at December 31, 1958 and the results of its operations for the year ended on that date.

Hamilton, Canada,
February 26, 1959

CLARKSON, GORDON & CO.
Chartered Accountants



The new plant of HENDERSHOT PAPER PRODUCTS LIMITED, Burlington, Ontario